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February 15, 1994

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William Caton, Acting Secretary
Federal Communications Commission
1919 M Street N.W.
Washington, D. C. 20554

Re: **Ex Parte Presentation
Prime Cable
MM Docket No. 92-266**

RECEIVED
FEB 15 1994
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Mr. Caton:

Jerry Lindauer, Senior Vice President of Prime Cable, and I met today with James Olson, Michael Katz, Jay Atkinson and Andrea Williams to discuss further Prime Cable's proposal that cable MSOs with less than 1 million subscribers be permitted to continue to charge their current rates, subject to possible later rollbacks and refunds, while the FCC conducts a full-fledged cost study.

In support of Prime Cable's proposal, we discussed the difference in the programming costs borne by Prime Cable (which has 580,000 subscribers) compared with the larger operators (over 1 million subscribers). See Attachment A. We also discussed the fact that cable operators of Prime Cable's size do not have the ability to obtain money for the same cost as do the larger operators.

Finally, we also discussed the impact of rate reductions on Prime Cable. As a result of Prime Cable's reduction of its rates in September 1993, it has suffered a loss in cash flow of approximately \$10 million annually (in addition to bank fees of \$1.6 million as a result of bank defaults created by the loss of cash flow). Were Prime Cable to reduce its rates by an additional 10 percent, it would suffer a further reduction in cash flow of another \$10 million.

As shown in Attachment B, Prime Cable's 1993 budget anticipated having about \$25 million of "net cash" to spend on capital expenditures (other than routine expenditures), payment of debt principal, and return to equity investors. The rate rollbacks of last year reduced that number by \$10 million (on an annual basis). An additional rollback of 10 percent would leave Prime with only \$5 million (less than 2.5

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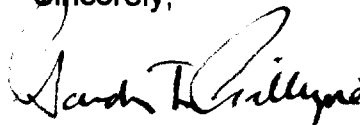
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William Caton
February 15, 1994
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percent of budgeted 1993 revenue) for these purposes. Obviously Prime Cable, which would be able only to make minimal principal payments, would not be able to be a player in creating the national information infrastructure.

The current financial markets allow cable operators like Prime Cable to borrow at 6 to 6 1/2 times operating cash flow. Attachment C shows that Prime Cable's Ft. Bend system had operating cash flow of \$17.75 million budgeted prior to rate regulation. It lost \$1.577 million annually in cash flow due to rate reductions as a result of regulation. That reduction in cash flow threw the system into default if its loan covenants in connection with its outstanding loan of \$110 million. Prime Cable is now trying to renegotiate the loan, but the loan now is grater than a multiple of 6 1/2 times cash flow. Were the system's cash flow to be reduced by an additional \$1.577 million, the system would have a borrowing "capacity" of only \$95 million. Because it would probably not be possible to renegotiate the loan on that basis, the system would almost certainly have to be sold. (This is the "Houston" system referred to in my letter of February 9, 1994.)

The information in this letter and the attachments is verified by the attached declaration of Mr. Lindauer.

Sincerely,



Gardner F. Gillespie

Attachments

cc: James Olson
Michael Katz
Jay Atkinson
Andrea Williams

ATTACHMENT A

PRIME CABLE
Presentation to the FCC
February 15, 1994

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A major MSO (> 1,000,000 subs) is an investor in a Prime Cable system which serves approximately 33,000 subscribers. Because of the MSO investor's equity interest, the system is entitled to pay for programming under the MSO investor's contracts. The rate differential accumulates for the benefit of the MSO investor. This agreement covers selected programming services only. The cost of such programming for the month of January 1994 was \$105,000 at the MSO investor's rates, while the same programming at Prime Cable rates would cost \$132,000. The difference of \$27,000 represents a 20% potential savings for the system on the selected programming services and potential annualized savings of \$324,000. Annual savings in that amount would yield a 6% increase in the operating cash flow (income before depreciation, amortization, interest, and taxes) of the cable system. This arrangement has been in effect since the system was purchased in 1986 and the potential savings due to the programming rate differential has been relatively constant, in percentage terms, over the entire period.

To take another look at the same issue, we reviewed the Prime Cable contracts with programming suppliers. Some of the programmers publish a volume rate discount chart that indicates the appropriate discount percentage for various subscriber levels. We have seen instances where certain MSOs are allowed volume discounts beyond the published discount rates. However, even limiting the analysis to the published rates, the charts clearly show that there are substantial benefits on programming rates to be gained by the large MSO based on subscriber volume. For example, Prime Cable's contract rate with CNN is based on a 5% volume discount while the maximum published discount is 20% for 3.5 million subscribers. Similarly, the Cartoon Network offers a maximum published discount of 15% for a 5 million subscriber level. Prime Cable has less than 100,000 Cartoon Network subs and is, therefore, not entitled to a discount. E! Entertainment offers a maximum published discount of 20% for MSOs with over 4 million subscribers. Prime Cable does not have adequate subscriber levels to qualify for a discount. ESPN offers a maximum published discount of 9% for 1.5 million subscribers. Prime Cable qualifies for a 1.5% discount. The Family Channel offers a maximum published discount of 25% for 10 million subscribers. Prime Cable's subscriber level qualifies for a 5% discount.

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To quantify the overall effect of this type of pricing structure, we compared Prime Cable's effective programming rates (the rates net of volume discounts available to Prime Cable) for selected services to the minimum rate available based on the published information. All services for which Prime Cable had access to published information about volume discounts were included in the calculation. The difference between our total cost of the selected services and the cost at the minimum published rates yielded a 15.44% difference. An extrapolation of that percentage difference to our total programming cost of \$3.9 million for the month of December and annualizing the potential savings yields a total potential annual savings of \$7.2 million. Such a savings would boost operating cash flow by more than 8%.

In addition to the benefits available to large MSOs due to programming volume discounts, the large MSOs also benefit from the availability of more attractive financing. Prime Cable is able to obtain bank financing for short-term borrowings at rates ranging from Prime to Prime +2%. The large MSOs are consistently able to obtain financing at Prime. In addition, unlike the larger MSOs, the smaller MSOs such as Prime Cable are denied access to the public debt market. As a consequence, we pay as much as 200 basis points more to obtain short-term financing and bear more risk due to the lack of a long-term source of funds. Bank debt facilities typically prescribe tighter debt to operating cash flow covenants than public debt. For example, a bank facility may allow total borrowings as much as 6.5 times operating cash flow while public debt may allow as much as 9 times operating cash flow. Because of these differences, the smaller companies which are more heavily dependent on bank financing may be less able to withstand the loss of operating cash flow due to regulatory rate rollbacks. Three of the Prime Cable systems have defaulted under the debt to cash flow covenants of the bank loan agreements as a result of the rate rollbacks. Although the banks are willing to amend the agreements to cure the default, the bank fees and related expenses are expected to total \$1.6 million.

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TOTAL P.05

MONTHLY COSTS OF PROGRAMMERS WITH VOLUME DISCOUNTS									
				PRIME SUBS	PRIME RATES	MAX DISC RATES	SUBS TO GET MAX DISC	SAVINGS	%
CARTOON NETWORK			\$2,343.30	49,267	0.0475	0.0425	5,000,000	\$246.34	10.51%
CNN			\$188,778.72	673,569	0.2803	0.2360	3,500,000	\$29,839.11	15.81%
CSPAN			\$21,695.83	747,833	0.0291	0.0119	4,000,000	\$12,885.22	59.30%
DISCOVERY			\$93,001.07	662,971	0.1403	0.1279	4,000,000	\$8,217.53	8.84%
EI ENTERTAINMENT			\$30,566.89	339,632	0.0900	0.0720	4,000,000	\$8,113.38	20.00%
ESPN			\$293,550.17	476,450	0.6000	0.5400	1,500,000	\$28,587.00	9.74%
FAMILY CHANNEL			\$56,803.89	453,192	0.1380	0.1050	10,000,000	\$11,329.80	19.88%
THE LEARNING CHANNEL			\$17,164.01	343,280	0.0500	0.0380	3,000,000	\$4,119.36	24.00%
LIFETIME			\$68,996.81	480,092	0.1500	0.1100	2,500,000	\$18,403.68	26.68%
WGN			\$21,746.33	341,620	0.0637	0.0550	900,000	\$2,957.23	13.60%
TOTAL			\$794,636.82	4,547,906	1.5808	1.3383		\$122,678.84	15.44%
DEC 1993									
	BASIC EXP	PAY EXP	CASH FLOW 1993						
HST	\$498,263	\$353,721	\$20,794,725						
AK	\$190,753	\$254,920	\$13,792,597						
CHG	\$532,637	\$588,259	\$17,742,534						
LV	\$768,315	\$570,832	\$31,413,005						
HICK	\$86,673	\$55,521	\$5,119,782						
	\$2,076,642	\$1,823,253	\$98,862,844						
	15.44%	15.44%							
	\$320,633	\$281,480							
12 MONTHS	\$3,847,602	\$3,377,767	\$7,225,359.27						
% OF CF	4.33%	3.80%	8.13%						

ATTACHMENT B

Impact of Regulation on Prime Cable

15-Feb-94

1993 Budget - Pre-Regulation	Las Vegas	Houston	Hickory	Alaska	Chicago	Total
=====						
Revenues	\$76,165	\$48,400	\$11,475	\$30,471	\$61,056	\$227,567
Operating Expenses	(\$42,805)	(\$27,363)	(\$5,887)	(\$15,757)	(\$40,104)	(\$131,916)
Cash Interest Expense	(\$9,527)	(\$6,105)	(\$2,449)	(\$6,120)	(\$10,320)	(\$34,521)
Free Cash Flow	\$23,833	\$14,932	\$3,139	\$8,594	\$10,632	\$61,130
Capital Spending - Routine	(\$19,867)	(\$6,658)	(\$1,421)	(\$2,716)	(\$5,163)	(\$35,825)
Net Cash Available	\$3,966	\$8,274	\$1,718	\$5,878	\$5,469	\$25,305
=====						

The Net Cash Available is before any sums have been allocated to re-investment in new technology, reduction of debt principal, or return to investors.

No taxes shown. All of the entities are partnerships except for the companies owning the Las Vegas and Chicago systems. They are corporations with accumulated tax losses and are not in a taxpaying position.

ATTACHMENT C

Impact of Regulation on Prime Cable

15-Feb-94

Prime Cable of Fort Bend, L.P.

	Before Regulation	After Regulation	After Regulation & Add'l 10% Cut
Annualized OCF	\$17,750	\$16,176	\$14,602
Debt Availability @ 6.5 X OCF	\$115,375	\$105,144	\$94,913
Debt Outstanding @ 9/01/93	\$110,995		

TOTAL P.02

812026375910 P.02

TO

PRIME CABLE


FROM

11:53

FEB-15-1994

DECLARATION OF JERRY D. LINDAUER

I, Jerry D. Lindauer, Senior Vice President of Prime Cable, hereby declare under penalty of perjury that I have reviewed the attached letter and its attachments and that they are true and correct to the best of my information, knowledge, and belief.


Jerry D. Lindauer
Senior Vice President
Prime Cable

February 15, 1994